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C O N F I D E N T I A L SECTION 01 OF 02 ABUJA 000558

SIPDIS

SENSITIVE

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SUBJECT: TFIZ01: NIGERIAN CRUDE PRODUCTION DROPS ABOUT 33%

REFS: (A) Abuja 554
- (B) Abuja 555
- (C) Lagos 624
- (D) FBIS RESTON 231918ZMAR03(AFP)

CLASSIFIED BY AMBASSADOR HOWARD F. JETER. REASON 1.5(c) and (d).

1. (SBU) Summary: Ongoing ethnic strife may cut Nigeria's crude production by 33% and its exports by 43% -- larger cuts than most media are reporting. The evacuation of Escravos, hub for 440,000 of ChevronTexaco's 510,000 bpd, is expected to conclude March 24. ChevronTexaco seeks U.S. imagery support. These cuts amount to about one percent of world daily crude production, but the impact on the U.S. is likely to be disproportionate. Meanwhile, Nigeria's national labor federation is threatening a general strike for April 1. End Summary.

2. (SBU) Further to Refs A-C, ChevronTexaco (CT) Managing Director Jay Pryor late afternoon of March 23 told the Ambassador that CT was suspending all crude production dependent on the Escravos tank farm, about 440,000 of CT's average 510,000 bpd. Pryor said Shell was losing 240,000 to 280,000 bpd because of strife precipitated by Ijaw militias, and that TotalFinaElf had lost between 30,000 and 40,000 bpd.

3. (SBU) Assuming Pryor's figures are correct, and they have also been verified by the British High Commission, Nigeria's daily production has fallen from around 2.2 mbpd to about 1.46 mbpd, a drop of approximately 33%, in under a week. If Nigeria continues to use 450,000 bpd for internal consumption (domestic refining and swaps for refined products), then exports will have dropped 43%. COMMENT: We have no reason to doubt Pryor's figures, but most media, including Ref D, give a lower figure (around 195,000 bpd) for Shell losses. However, major producers (and Shell is Nigeria's largest) often have excess capacity. Shell's losses in the affected areas could well be on the order of 260,000 bpd, but it might be able to "make up" some of that from other fields. CT's production, on the other hand, is heavily concentrated around Escravos and its production is now 70,000 bpd from two other facilities. END COMMENT.

EVACUATION

4. (U) According to Pryor, the two Antonov transport aircraft CT had planned to use to evacuate personnel and IDPs from Escravos were not able to make the trip from South Africa. However, CT was able to deploy a fleet of smaller aircraft. It expects to complete the evacuation by mid-day on Monday, March 24. From 35-50 persons will remain at the tank farm to provide maintenance and keep utilities operating, among other tasks. Another 8-9 persons will stay on CT's platform at the mouth of the river.

5. (SBU) Pryor reported that approximately 280 GON security personnel, a mixture of Army, Navy and Police (MOPOL) were in and around Escravos. There have been no problems in the 36 hours prior to his conversation with the Ambassador.

IMAGERY

6. (C) Pryor reported that the GON was already pressing CT to bring Escravos back into operation but that CT thought the Escravos area remained too tense and unstable for operations to resume. Even once the GON provided CT with an "all-clear," the company would be reluctant to resume operations without independent confirmation (via imagery) that calm had returned.

COMMENT

17. (C) We understand that the USG has sometimes provided U.S. firms imagery of oil-producing areas that had suffered from instability or insurgency. We understand, for example, that this was done in Angola. We believe CT must understand that USG imagery assets are fully deployed for other purposes at this time. Nonetheless, we pass along CT's request, as we know that each day with Escravos off-line is a day with 440,000 barrels of crude lost to U.S. and world markets.

18. (SBU) 735,000 bpd would amount to just under one percent of daily worldwide crude oil production (79 mbpd). There is no guarantee that production losses will not climb higher before stability returns to the Niger Delta. As we reported previously (Ref B), inter-ethnic tensions in the Niger Delta are being aggravated by electoral politics. Meanwhile, the Nigeria Labour Congress (NLC) is publicly threatening a nationwide general strike for April 1, if the GON fails to implement a 12.5% increase in civil service salaries and the minimum wage. While the last NLC-sponsored general strike (an effort to roll back an increase in motor fuel prices) fizzled, organized labor in Nigeria remains a potent force. Oil companies may be reluctant to restart production in the days ahead if they fear the petroleum sector unions (NUPENG and PENGASSAN) might join the general strike. They certainly will not resume without iron-clad assurances of security.

19. (SBU) Lost Nigerian oil production may have a larger impact on the U.S. than mere percentages would suggest. The U.S. has long been the largest consumer of Nigerian crude; in 2001 our average daily imports from Nigeria were about 800,000 bpd (according to a "Newsweek" article that cited the IEA). In addition, Nigeria sells crude oil to Caribbean and Canadian refineries that blend its light, sweet crude with heavier varieties (primarily from Canada and Venezuela) to refine motor fuels that are then sold in the U.S. Precise figures are impossible to derive, but estimates from 2000 suggested the U.S. was the end-consumer of about 80% (between 1.2 and 1.3 mbpd) of Nigeria's crude production that year. Canada's Deputy High Commissioner recently told us that this business continued to be important for refineries on his country's Atlantic coast.

110. (SBU) If production losses in the 700,000-plus bpd range continue for very long, Nigeria will have to draw down its foreign exchange reserves (already lower than a year ago) further to support the Naira. For political reasons, the GON cannot permit a significant devaluation of the currency now, just weeks before national elections. One of many tools that Nigeria traditionally has used to maintain its influence in West Africa has been to provide other countries with some crude oil on concessional terms. We do not know the current daily volume of these deals. However, the GON may have to reduce or halt deliveries of such shipments until production returns to normal.

111. (U) Abidjan minimize considered.
JETER